U.S. Department of the Interior
Office of Inspector General

SURVEY REPORT

EXPENDITURES CLAIMED AGAINST THE FEDERAL EMERGENCY MANAGEMENT AGENCY S COMMUNITY DISASTER LOAN TO THE GOVERNMENT OF THE VIRGIN ISLANDS

REPORT NO. 98-E-98
NOVEMBER 1997

United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

NOV 19 1997

MEMORANDUM

TO: The Secretary

FROM: Wilma A. Lewis
Inspector General

SUBJECT SUMMARY: Final Survey Report for Your Information - "Expenditures Claimed Against the Federal Emergency Management Agency's Community Disaster Loan to the Government of the Virgin Islands" (No. 98-E-98)

Attached for your information is a copy of the subject final survey report. The objective of the review was to determine whether the Government of the Virgin Islands: (1) was using Disaster Loan funds in accordance with Federal Emergency Management Agency (FEMA) laws and regulations and (2) was maintaining adequate supporting documentation for claims made against the Disaster Loan.

We found that the Government of the Virgin Islands used Disaster Loan funds for the purposes for which the Loan was requested, specifically, for operating expenses of the University of the Virgin Islands (an independent instrumentality of the Government) and the Department of Tourism (a cabinet-level agency of the Government) and for general government payroll expenses. However, the Government's Department of Finance did not establish and use separate accounting records within its financial management system to provide an audit trail for Disaster Loan funds received and disbursed. In addition, the University of the Virgin Islands and the Department of Tourism received a total of $15.5 million in Disaster Loan funds but were not notified by the Government's Office of Management and Budget or the Department of Finance of the specific source of the funds or of the requirement to account for and use the Disaster Loan funds in accordance with established requirements. As a result, adequate accounting records were not maintained to show how the Disaster Loan funds of $15.5 million were used. Accordingly, there was little assurance that the $15.5 million would be eligible for cancellation under the provisions of FEMA regulations. In addition, the Government earned about $21,700 in interest on Disaster Loan funds but did not remit this interest to FEMA.

Based on the response from the Governor of the Virgin Islands, we considered one of the report's five recommendations resolved and implemented and requested additional information for the remaining four recommendations.

If you have any questions concerning this report, please contact me at (202) 208-5745 or Mr. Robert J. Williams, Assistant Inspector General for Audits, at (202) 208-4252.

Attachment

V-GR-NDI-002-97

United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

NOV 12 1997

SURVEY REPORT

Honorable Roy L. Schneider
Governor of the Virgin Islands
No. 21 Kongens Gade
Charlotte Amalie, Virgin Islands 00802

Subject: Survey Report on Expenditures Claimed Against the Federal Emergency Management Agency's Community Disaster Loan to the Government of the Virgin Islands (No. 98-E-98)

Dear Governor Schneider:

This report represents the results of our survey of expenditures claimed against the Community Disaster Loan that was issued by the Federal Emergency Management Agency (FEMA) as a result of Hurricane Marilyn. The objective of the review was to determine whether the Government: (1) was using Disaster Loan funds in accordance with FEMA laws and regulations and (2) was maintaining adequate supporting documentation for claims made against the Disaster Loan.

BACKGROUND

On September 15, 1995, Hurricane Marilyn struck the Virgin Islands, causing extensive damage to public and private facilities. As a result, the President of the United States issued a major disaster declaration, which allowed FEMA to provide disaster assistance in accordance with the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Public Law 100-707). Under the Act, the Government of the Virgin Islands was eligible to apply for a Disaster Loan.

According to the Code of Federal Regulations (44 CFR 206), which contains the policies and procedures to be followed in implementing the Stafford Act, a Disaster Loan may be made to "any local government which has suffered a substantial loss of tax and other revenues as a result of a major disaster and which demonstrates a need for Federal financial assistance in order to perform its governmental functions." The Code further states that the amount of the Disaster Loan is "based on need, not to exceed 25 percent of the operating budget of the local government for the fiscal year in which the disaster occurs." The Code also states that repayment of all or any part of a Disaster Loan may be canceled to the extent "that revenues of the local government during the 3 fiscal years following the disaster are insufficient to meet the operating budget of that local government because of disaster-related revenue losses and

additional unreimbursed disaster-related municipal operating expenses. "[1] The Code requires that Disaster Loan funds disbursed to the local government which have not been canceled be repaid, including accrued interest against the outstanding principal.

In October 1995, the Government of the Virgin Islands initially applied for Disaster Loan funds of $119 million and, in February 1996, based on a revised annual operating budget, amended its application to $140 million. In June 1996, FEMA approved a maximum loan amount of $127 million. As of December 1996, FEMA had obligated $85.6 million, and the Government of the Virgin Islands had drawn down $85 million of the obligated amount. The Government said that it used the funds for payroll expenditures ($69.5 million), allotments to the University of the Virgin Islands ($8.9 million), and expenditures of the Department of Tourism ($6.6 million).

SCOPE OF SURVEY

The survey was conducted under a cooperative agreement between the Department of the Interior's Office of Inspector General and FEMA's Office of Inspector General and included a review of Disaster Loan receipts and disbursements that occurred from July to December 1996. The survey was conducted, from February through April 1997, by auditors from the Department of the Interior and FEMA at the Virgin Islands Office of Management and Budget, the Departments of Finance and Tourism, and the University of the Virgin Islands, all on St. Thomas.

Our review was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

As part of our review, we evaluated the Government's ability to comply with FEMA laws and regulations and to provide adequate supporting documentation to FEMA for expenditures claimed against the Disaster Loan. The weaknesses identified during the review are discussed in the Results of Survey section of this report. Our recommendations, if implemented, should improve the internal controls in these areas.

PRIOR AUDIT COVERAGE

In April 1996, an independent public accounting firm, on behalf of FEMA, issued the report "Review of the U. S. Virgin Islands' Application for Cancellation of Community Disaster Loan 84 1 23. " The report contained findings related to the Government's request for cancellation of the $50.1 million Community Disaster Loan awarded in September 1990 as a result of Hurricane Hugo. The report concluded that the Government was eligible for a loan

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[1] The Code of Federal Regulations defines unreimbursed disaster-related municipal operating expenses as those "incurred for general government purposes, such as police and fire protection, trash collection, collection of revenues, maintenance of public facilities, flood and other hazard insurance, and other expenses normally budgeted for the general fund."

cancellation in the amount of $18.2 million. In January 1997, FEMA increased the loan cancellation amount to $21 million. Therefore, the Government was responsible for repayment to FEMA for the uncanceled principal amount of $29.1 million plus related interest.

In June 1996, the Department of the Interior's Office of Inspector General issued the survey report "Financial Reporting System for the Federal Emergency Management Agency's Community Disaster Loan to the Government of the Virgin Islands" (No. 96-E-966). The report concluded that the Government's financial management system did not adequately track receipts and disbursements made against the Community Disaster Loan issued to the Government as a result of Hurricane Hugo. Therefore, according to the report, supporting documentation had to be obtained from individual departments and agencies of the Government. The report recommended that: (1) specific cost centers be established within the Government's financial management system for each category of cost to be charged to any future Disaster Loan and (2) agencies separately accumulate expenditure vouchers and other documentation in support of costs charged to the cost centers. Although the Government's Director of Management and Budget concurred with the report's two recommendations and provided sufficient information to have the recommendations considered resolved and implemented, our current review disclosed that the corrective actions were not fully implemented.

RESULTS OF SURVEY

We found that the Government of the Virgin Islands used Disaster Loan funds for the purposes for which the Loan was requested, specifically for operating expenses of the University of the Virgin Islands (an independent instrumentality of the Government) and the Department of Tourism (a cabinet-level agency of the Government), and for general government payroll expenses. However, the Government's Department of Finance did not establish and use separate accounting records within its financial management system to provide an audit trail for Disaster Loan funds received and disbursed. In addition, the University of the Virgin Islands and the Department of Tourism received a total of $15.5 million in Disaster Loan funds but were not notified by the Government's Office of Management and Budget or the Department of Finance of the specific source of the funds or of the requirement to account for and use the Disaster Loan funds in accordance with established requirements. The requirements to account for and use Disaster Loan funds are contained in Title 44, Part 206, of the Code of Federal Regulations; U.S. Office of Management and Budget Circular A- 102, "Uniform Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments"; the promissory note executed in June 1996 between FEMA and the Government; and the Government's own "Procedural Guidelines." As a result, adequate accounting records were not maintained to show how Disaster Loan funding of $15.5 million paid to the University of the Virgin Islands and the Department of Tourism was used. Accordingly, there was little assurance that the $15.5 million would be eligible for cancellation under the provisions of FEMA regulations. In addition, the Government earned about $21,700 in interest on Disaster Loan funds but did not remit this interest to FEMA.

Loan Criteria

Title 44, Part 206, of the Code of Federal Regulations states that Disaster Loan funds may be used to carry on existing local government functions of a municipal operating character or to expand such functions to meet disaster-related needs. The Code also states that Disaster Loan funds are not to be used to finance capital improvements or to repair or restore damaged public facilities. Further, according to the Code, neither the Disaster Loan nor any canceled portion of the Disaster Loan is to be used as the non-Federal share of any Federal program, and each local government with an approved Disaster Loan is responsible for establishing the necessary accounting records, consistent with its financial management system, to account for Disaster Loan funds received and disbursed and to provide an audit trail.

Based on the Government's "Procedural Guidelines," which were established in accordance with the promissory note to track Disaster Loan funds, the Government's Department of Finance was responsible for the following: (1) establishing a "separate non-interest bearing bank account for all deposits, disbursements, and transfers" associated with the Disaster Loan; (2) posting Disaster Loan revenue and expenditure accounts on the financial management system; (3) transferring funds from the Disaster Loan expenditure accounts to the various operating accounts of the Government; and (4) generating a report for each "check run"[2] to summarize the disbursements, by fund and expenditure type, made against the Disaster Loan. In addition, according to the "Procedural Guidelines," the Government's Office of Management and Budget was required to submit a quarterly budget report to FEMA based on a projected "cash needs assessment."

Based on the promissory note with FEMA, the Government was eligible to receive funds and to claim unreimbursed disaster-related expenses during fiscal years 1996, 1997, and 1998.

Expenditure Issues

From July to December 1996, the Government used the Disaster Loan funds for payroll ($69.5 million), allotments to the University of the Virgin Islands ($8.9 million), and expenditures of the Department of Tourism ($6.6 million). We concluded that, on an overall basis, these funds were used for the purposes for which the Loan was requested. However, the Government's Office of Management and Budget and the Department of Finance did not provide detailed instructions to recipients of Disaster Loan funds regarding record-keeping requirements and uses of the funds.

Payroll. The Government used Disaster Loan funds from each of the five drawdowns, totaling $69.5 million, for payroll expenditures. Although the Department of

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[2]As part of the Government's "Procedural Guidelines," the Department of Finance's Accounting Division was responsible for generating a report of checks issued. The report would have provided check detail information to FEMA and would have summarized disbursements by fund (Federal versus local) and by expenditure type (capital outlay versus operating expense). This report is generally referred to as a "check run."

Finance's Acting Director of the Treasury was able to provide us with summary computer printouts to justify the need for the $69.5 million to cover payroll expenditures of the Government, a complete accounting, including all documents and records to support the payroll expenditures, had not been compiled. Therefore, we conducted a payroll analysis in order to verify that amounts transferred from the "separate non-interest bearing bank account" to the General Fund Statement Savings Account were reasonable for amounts used for payroll. To perform this analysis, we reviewed the payroll account, the Payroll Warrant Registers, the Check Register of Deductions, the Direct Deposit Register, and the social security and health insurance payments. Based on these records, we concluded that the amounts of Disaster Loan funds which were transferred to the General Fund Statement Savings Account and then to the payroll account were reasonable for the amounts claimed for payroll.

We believe that the Acting Director of the Treasury should separately document all payroll records in support of amounts claimed against the Disaster Loan and separately maintain those records for FEMA review in the event that the Government applies for cancellation of the Disaster Loan.

University of the Virgin Islands. The University received a total of $8.9 million in Disaster Loan funds. However, University officials said that they were not notified by Office of Management and Budget or Department of Finance officials that the funds received were proceeds from the Disaster Loan. Accordingly, University officials said that they were unaware of the requirements for the accounting and use of the Disaster Loan funds, as contained in the Code of Federal Regulations, the promissory note, and the Government's "Procedural Guidelines." University officials said that they accounted for the Disaster Loan funds as a normal allotment from the Government and therefore deposited the funds into the University's operating account. The University did not make any effort to segregate the Disaster Loan funds or to maintain adequate supporting documentation for the use of the funds.

University officials were able to provide documents which showed that the Government had not paid allotments to the University in a consistent and sufficient manner and that, as of March 1997, the Government owed the University $11.6 million in unpaid allotments. University officials said that, as a result, they borrowed about $6.5 million from January to October 1996 from a "restricted" account to carry on the University's normal operations and therefore considered the $8.9 million in Disaster Loan funds as a reimbursement to their "restricted" account. In lieu of a specific account for the use of the Disaster Loan funds, the University provided us with payroll records for fiscal year 1996, which totaled $16.2 million, to justify the need for $8.9 million in payroll costs.

In an April 1997 letter to the Acting Commissioner of the Department of Finance, the University's Vice President for Business and Financial Affairs requested that the University be advised, in writing, when the Government uses Disaster Loan funds for the operations of the University.

Department of Tourism. The Department received a total of $6.6 million in Disaster Loan funds. Departmental officials said that the Government's Office of Management and Budget and Department of Finance officials did not notify them of the source of the funds or the requirements for the accounting and use of the Disaster Loan funds. Therefore, according to the officials, the Department did not segregate the receipt of the Disaster Loan funds ($6.6 million) from funds collected for hotel occupancy taxes ($8.1 million for fiscal years 1996 and 1997 through March), of which both funds were deposited into the Tourism Advertising Revolving Fund. The Department also did not segregate expenditures and accompanying supporting documentation for claims made against the Disaster Loan funds. Accordingly, there was little assurance that the expenditures shown in supporting documents provided to us by the Department were paid exclusively from proceeds of the Disaster Loan.

However, we did review Miscellaneous Disbursement Vouchers, invoices, and copies of canceled checks provided by the Department in support of the $6.6 million in Disaster Loan funds. Based on this review, we determined that the Department did not always immediately use the funds in accordance with the cash management requirements of Circular A-102 and the intent of the FEMA program. Specifically, Circular A-102 states that in order to apply proper "cash management," the "grantee must make drawdowns as close as possible to the time of making disbursements" in order to minimize the "time elapsing between the transfer of funds from the U. S. Treasury and disbursement by grantees." In addition, FEMA program personnel told us that the intent of Disaster Loans was to provide immediate cash to local governments in order for them to carry on their normal operations and that drawdowns should represent the governments' immediate needs for cash. Instead, the Department spent loan funds for invoices dated up to 4 months before and after the receipt of the funds. For example, the Department received $4.1 million in January 1997 and claimed expenditures incurred against invoices that were dated from September 1996 to May 1997. Based on Circular A-l 02 and FEMA's stated intent, we believe that the Government should have provided the Department of Tourism with funds on a periodic (such as monthly) basis sufficient to meet immediate cash needs.

The Deputy Director and Associate Director of the Government's Office of Management and Budget stated that, while departments and agencies of the Government were briefed on documentation requirements for the Public Assistance Program,[3] there were no formal briefings for agencies (such as the Department of Tourism) and independent instrumentalities (such as the University) that received Disaster Loan funds. Accordingly, we believe that both the University of the Virgin Islands and the Department of Tourism should compile documents in support of amounts received from the Disaster Loan and separately maintain those documents for FEMA's review in the event that the Government applies for cancellation of the Disaster Loan.

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[3]The Code of Federal Regulations defines public assistance as "supplementary Federal assistance provided under the Stafford Act to State and local governments or certain private, nonprofit organizations other than assistance for the direct benefit of individuals and families."

Drawdown Issues

From July to December 1996, FEMA obligated $85.6 million of the $127 million approved Disaster Loan. During that same time period, the Government made five drawdowns, totaling $85 million, from the obligated amount. We concluded that, except for the Department of Tourism transactions discussed previously and Drawdowns Nos. 2 and 5, as discussed below, the Government properly performed the drawdown process and requested funds that were commensurate with cash needs.

Drawdown No. 2. On July 17, 1996, the Government drew down $21 million. On July 22, 1996, the $21 million was transferred to the General Fund Statement Savings Account. On July 18, 1996, the Government issued a check to the University of the Virgin Islands for $5.5 million from the General Fund. On July 23, 1996, the Government transferred $13 million from the General Fund Statement Savings Account to its payroll account to cover payroll expenditures that were paid on July 18, 1996. Government officials said that the Government used the remaining $2.5 million for the Department of Tourism: $2 million issued to the Department in a check dated August 6, 1996, and the remaining $500,000 by August 16, 1996. Therefore, we conservatively estimated that from July 22, 1996, until the $2 million and $500,000 transfers were made to the Department of Tourism on August 6 and August 16, respectively, the Government earned approximately $2,700 while the Disaster Loan funds remained in the General Fund Statement Savings Account (an interest-bearing account). In accordance with Circular A-102, interest earned on Federal grants is to be remitted to the grantor agency.

Draw-down No. 5. On December 23, 1996, the Government drew down $27 million and, on December 27, transferred the $27 million to the General Fund Statement Savings Account. On January 2, 1997, the Government transferred $12.3 million from the General Fund Statement Savings Account to its payroll account to cover payroll expenditures that were paid on that date. On the same date, the Government issued a check to the University of the Virgin Islands for $3.4 million. In addition, by separate transactions on January 16 and 17, 1997, the Government transferred a total of $12.4 million ($7.2 million of which apparently represented Disaster Loan funds[4]) from the General Fund Statement Savings Account to its payroll account to cover payroll expenditures that were paid on January 16, 1997. Finally, on January 22, 1997, the Government transferred $4.1 million from the General Fund Statement Savings Account to the Tourism Advertising Revolving Fund.

Based on our analysis, we concluded that, of the $27 million, the Government used $3.4 million for the University of the Virgin Islands, $4.1 million for the Department of Tourism, and the remaining $19.5 million for payroll. We believe that the entire $27 million

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[4]A total of $19.8 million ($12.3 million for payroll expenditures on January 2, 1997; $3.4 million for the University of the Virgin Islands on January 2, 1997; and $4.1 million for the Department of Tourism on January 22, 1997) was specifically charged against the Disaster Loan funds of $27 million that were transferred to the General Fund Statement Savings Account on December 27, 1996. Therefore, we believe that the $12.4 million transferred to the payroll account on January 16 and 17, 1997, consisted of the $7.2 million remaining balance of the Disaster Loan funds and $5.2 million from other funds in the savings account.

should not have been drawn down at one time or transferred in total to the General Fund Statement Savings Account because those actions violated the cash management requirements of Circular A-102. The Circular states, “Agency methods and procedures for transferring funds shall minimize the time elapsing between the transfer to recipients of grants and cooperative agreements and the recipient’s need for the funds.” The Circular also states that grantees are to “promptly, but at least quarterly, remit interest earned on advances to the Federal agency. " As a result of placing the $27 million in the General Fund Statement Savings Account (an interest-bearing account), we conservatively estimated that the Government earned interest of approximately $19,000 for the periods of time that the Disaster Loan funds remained in the interest-bearing account.

The Acting Director of the Treasury Division confirmed that Drawdown No. 5 was not handled in the same manner as the other drawdowns and agreed that the Government improperly drew down cash in excess of its immediate needs. Therefore, the Government should remit to FEMA the $21,700 in interest earned on the Disaster Loan funds.

Compliance Issues

Although the Government appropriately established a “separate non-interest bearing bank account” for the receipt of drawdowns, as specified in both the promissory note and the Government’s “Procedural Guidelines,” it did not comply with other requirements contained in the promissory note and the “Procedural Guidelines.” Specifically, the Department of Finance did not post transactions to Disaster Loan revenue and expenditure accounts and post transfers from the Disaster Loan expenditure accounts to the operating accounts because separate cost centers were not set up on the Government’s financial management system for all of the cost categories to be charged to the Disaster Loan (see Prior Audit Coverage) and the cost centers that were set up were not always used by the Government officials initiating the transactions. In addition, the Department of Finance did not generate a report for each “check run,” which would have summarized the disbursements, by fund and expenditure type, made against the Disaster Loan. Furthermore, the Government’s Office of Management and Budget did not submit quarterly budget reports, which would have included detailed revenue and expenditure information pertaining to the Disaster Loan, to FEMA.

Recommendations

We recommend that the Governor of the Virgin Islands instruct the Director of Management and Budget, in his capacity as the Governor’s Authorized Representative, to ensure that:

1. Departments and agencies of the Government, in accounting for Disaster Loan funds, comply with Title 44, Part 206, of the Code of Federal Regulations; U. S. Office of Management and Budget Circular A-l 02; the promissory note; and the Government’s own “Procedural Guidelines.” In that regard, departments and agencies should take the following actions:

- Establish the necessary accounting records to account for Disaster Loan funds received and disbursed and to provide an audit trail.

- Minimize the time elapsing between the transfer of funds from the U. S. Treasury and the disbursement of funds by the grantee.

- Submit required quarterly budget reports to FEMA.

- Account for the receipt, transfer, and expenditure of Disaster Loan funds through the Government's financial management system.

2. Government agencies and independent instrumentalities separately accumulate expenditure vouchers and other documentation in support of costs paid from Disaster Loan funds and maintain those records for FEMA review in the event the Government elects to file for cancellation of the Disaster Loan.

3. Disaster Loan funds are kept in a "separate non-interest bearing bank account" until they are spent.

4. The $21,700 in interest earned on Disaster Loan funds is remitted to FEMA.

5. Departments and agencies of the Government are notified when they receive Disaster Loan funds and that they are cognizant of the laws and regulations governing the record-keeping requirements and uses of Loan funds.

Governor of the Virgin Islands Response and Office of Inspector General Reply

The September 25, 1997, response (Appendix 2) to the draft report from the Governor of the Virgin Islands concurred with the five recommendations and indicated that corrective actions had been or would be taken. Based on the response, we consider Recommendation 3 resolved and implemented and request additional information for Recommendations 1, 2, 4, and 5 (see Appendix 3).

Additional Comments on Report

The response to the draft report from the Governor of the Virgin Islands stated that the Government concurred with our findings and recommendations with the following exception:

> "In addition, the University of the Virgin Islands and the Department of Tourism received a total of $15.5 million in Disaster Loan funds but were not notified by the Governments' Office of Management and Budget or the Department of Finance of the source of the funds or of the requirements to account for and use the Disaster Loan funds in accordance with established requirements. As a result, adequate accounting records were not maintained to show how Disaster Loan Funding of $15.5 million paid to the University of the Virgin Islands and the Department of Tourism was used. Accordingly, there was little assurance that the $15.5 million would be eligible for

> cancellation under the provision of FEMA [Federal Emergency Management Agency] Regulation. "

To support its exception to this statement, copies of memoranda that the Office of Management and Budget sent to the University and the Department of Tourism regarding this issue were provided with the response (Attachment to Appendix 2).

The December 3 1, 1996, memorandum to the University's Vice-President of Business and Financial Affairs states, "The Governor instructed [the Commissioner] of the Department of Finance to release $4.0 million to the University of the Virgin Islands by Thursday afternoon, January 2, 1997. " The memorandum further states:

> The Chief Executive will review the resources, after FEMA's response in January, and determine amounts to be transferred to the V.I. Government. Should resources permit, another $4.0 million would be transferred to [the University].

However, although the memorandum cites FEMA funding, it does not specifically state that the $4.0 million to be transferred to the University by January 2, 1997, was from Disaster Loan funds and does not provide the University with any instructions as to how the funds should be accounted for to comply with FEMA requirements..

The January 8, 1997, memorandum to the Commissioner of Finance (with a copy to the Commissioner of Tourism) states, "This confirms my discussion on December 30, 1996 with the Governor and his authorization to release $4.1 million, of recently received FEMA funding of $27.1 million, to the Tourism Revolving Fund to help defray obligations of that fund." Although the memorandum to the Commissioner cites FEMA funding, it also does not specifically state that the $4.1 million to be transferred to the Department of Tourism was from Disaster Loan funds, and it does not provide the Department with any instructions as to how the funds should be accounted for to comply with FEMA requirements.

Further, during our audit, we specifically asked key officials at the University of the Virgin Islands and the Department of Tourism whether they knew that the amounts which were transferred to their respective agencies were Disaster Loan funds and whether they received special instructions on how to account for these funds. In all instances, these officials responded that they did not know that the amounts were from Disaster Loan funds and were not instructed on how to account for these funds. Therefore, we believe that the statement in our Results of Survey section accurately presents the facts.

The Inspector General Act, Public Law 95-452, Section 5(a)(3), as amended, requires semiannual reporting to the U.S. Congress on all audit reports issued, the monetary impact of audit findings (Appendix 1), actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

In view of the above, please provide a response, as required by Public Law 97-357, to this report by December 12, 1997. The response should be addressed to our Caribbean Regional Office, Federal Building - Room 207, Charlotte Amalie, Virgin Islands 00802. The response should include the information requested in Appendix 3.

We appreciate the assistance of personnel of the the Virgin Islands Office of Management and Budget, the Departments of Finance and Tourism, and the University of the Virgin Islands in the conduct of our audit.

Sincerely,

Wilma A. Lewis
Inspector General
Department of the Interior

George J. Opfer
Inspector General
Federal Emergency Management Agency

CLASSIFICATION OF MONETARY AMOUNTS

Finding Area	Funds To Be Put To Better Use
Drawdown Issues:	
Interest Earned	$21,700*

* This amount represents Federal funds.

THE UNITED STATES VIRGIN ISLANDS

OFFICE OF THE GOVERNOR
GOVERNMENT HOUSE
Charlotte Amalie, V.I.00802
809-774-0001

September 25, 1997

Mr. Arnold van Beverhoudt, Jr.
Director of Insular Area Audits
Department of Interior
Office of the Inspector General
Caribbean Region
Room #207 Federal Building
St. Thomas, U.S.V.I. 00802

Re: Draft Survey Report V-GR NDI-002-97 Expenditures Claimed against the Federal Emergency Management Agencies' Community Disaster Loan to the Government of the Virgin Islands.

The Government of the Virgin Islands, after a review of Draft Survey Report Agreement #VGRNDI -002-97, concurs with stated findings and recommendation's except as outlined below: page 3, second paragraph - Result of Survey

"In addition, the University of the Virgin Islands and the Department of Tourism received a total of $15.5 million in Disaster Loan Funds but were not notified by the Governments' Office of Management and Budget or the Department of Finance of the source of the funds or of the requirements to account for and use of the Disaster Loan Funds in accordance with established requirements. As a result, adequate accounting records were not maintained to show how Disaster Loan Funding of $15.5 million paid to the University of the Virgin Islands and the Department of Tourism was used. Accordingly, there was little assurance that the $15.5 million would be eligible for cancellation under the provision of FEMA Regulation."

Attached copies of letter to the Commissioner of Tourism and to the Vice-President of the University of the Virgin Islands show that each agency was advised of the source of funding. Additionally, the following responses apply to similarly numbered recommendations.

1. The Office of Management and Budget, through its Federal Grants Management Unit, will develop standard language to be incorporated in any document awarding Federal Funds to government and non-government agencies, in order to ensure compliance with federal regulations and government procedural guidelines.

The Office of Management and Budget will advise the Department of Tourism and the University of the Virgin Islands to accumulate and/or reconstruct records justifying the use of all funds provided them from the Community Disaster Loan.

Mr. Arnold van Beverhoudt, Jr.
September 25, 1997
Page two

2. The Office of Management will direct all government agencies and instrumentalities to separately accumulate expenditures and other documentation of costs paid from disaster loan funds.

3. The Territory has already established a separate non-interest bearing account in which FEMA Funds will be deposited.

4. The Virgin Islands Department of Finance will issue a check to the Federal Emergency Management Agency in the amount of $21,700 for interest earned on funds.

5. See Item no. 1.

Sincerely,

Roy L. Schneider, M.D.
Governor

fg0243
attachments

GOVERNMENT OF
THE VIRGIN ISLANDS OF THE UNITED STATES

OFFICE OF MANAGEMENT AND BUDGET

41 NORRE GADE
EMANCIPATION GARDEN STATION, 2ND FLOOR
CHARLOTTE AMALIE, ST. THOMAS, V.I. 00802

(809) 774-0750
FAX: (809) 776-0069

January 8, 1997

MEMORANDUM

To: Acting Commissioner, Department of Finance

From: Director, Office of Management and Budget

Subject: **Authorization to Release $4.1 Million to Tourism Revolving Fund**

This confirms my discussion on December 30, 1996 with the Governor and his authorization to release $4.1 million, of recently received FEMA funding of $27.1 million, to the Tourism Revolving Fund to help defray obligations of that fund.

Your Assistant Director of Accounting attended this meeting and was so advised.

Nellon Bowry

Nellon L. Bowry
Director

NLB/IRM/urb

pc: Commissioner Designate Whisonant, Department of Tourism
Deputy Director, OMB
Assistant Director of Accounting, Department of Finance
Director of Administration and Management, Department of Tourism

GOVERNMENT OF
THE VIRGIN ISLANDS OF THE UNITED STATES

OFFICE OF MANAGEMENT AND BUDGET

41 NORRE GADE
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CHARLOTTE AMALIE, ST. THOMAS, V.I. 00802

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December 31, 1996

MEMORANDUM:

To: Mr. Malcolm Kirwan,
Vice-President of Business & Financial Affairs, UVI

From: Mr. Ira Mills, Deputy Director

Subject: **Meeting with Governor on December 31, 1996**

This memo is to confirm a common understanding of the results of a meeting between the Governor and ourselves regarding funding for the University of the Virgin Islands.

1. The Governor instructed Mr. Centeno of the Department of Finance to release $4.0 million to the University of the Virgin Islands by Thursday afternoon, January 2, 1997.

2 The Chief Executive will review the resources, after FEMA's response in January, and determine amounts to be transferred to the V.I. Government. Should resources permit, another $4.0 million would be transferred to UVI. Additionally, should Casino related revenues be available then some consideration will be given to funding the opening of the new St. Croix Facility.

3 The Governor committed to making available at least $1.7 million per month to enable UVI to cover its payroll.

4. OMB will coordinate with the Department of Finance on the quarterly allotments to UVI so that UVI will be informed as the likely month in the quarter that payment will be made to the university.

Ira Mills

Ira R. Mills
Deputy Director

IRM/urb
BA5645

pc: Director, OMB
Acting Commissioner, Department of Finance
Assistant Director of Accounting, Department of Finance

STATUS OF AUDIT REPORT RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
1	Management concurs; additional information needed.	Provide a target date for developing standard language to be incorporated into documents awarding Federal funds to Governmental and non-Governmental agencies. When completed, a copy of the standard language should be provided to our Caribbean Region Office.
2 and 5	Management concurs; additional information needed.	Provide a target date for advising the Department of Tourism and the University of the Virgin Islands to accumulate records justifying the use of Disaster Loan funds and for advising all Governmental agencies to separately accumulate expenditure and other documents of costs paid from Disaster Loan funds. When completed, copies of the communications with the agencies should be provided to our Caribbean Region Office.
3	Implemented.	No further action is required.
4	Management concurs; additional information needed.	Provide a target date for issuing a check in the amount of $21,700 to FEMA for interest earned on Disaster Loan funds. When completed, copies of documents supporting such issuance should be provided to our Caribbean Region Office.

ILLEGAL OR WASTEFUL ACTIVITIES SHOULD BE REPORTED TO THE OFFICE OF INSPECTOR GENERAL BY:

Sending written documents to: Calling:

Within the Continental United States

U.S. Department of the Interior
Office of Inspector General
1849 C Street, N.W.
Mail Stop 5341
Washington, D.C. 20240

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U.S. Department of the Interior
Office of Inspector General
Eastern Division - Investigations
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Arlington, Virginia 22209

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North Pacific Region

U.S. Department of the Interior
Office of Inspector General
North Pacific Region
238 Archbishop F.C. Flores Street
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